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# Certified Public Manager Project

Making Accounts Payable More Productive

Rachel Hodge

South Carolina State Housing Finance and Development Authority

February 2, 2005

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## **Project Statement**

The State Housing Authority serves an extremely varied clientele. The Agency is responsible for issuing payments to real estate developers, non-profit organizations, individuals who are renovating property, landlords, renters, vendors and suppliers, and to SHA employees. All of these payments, and the paper work that supports each one, must flow through accounts payable. Improving the efficiency of accounts payable could result in both a cost saving for the Agency and in improved customer service. Improving efficiency could also result in improved cycle times for payments.

## **Overview of Accounts Payable Procedure**

Invoices are received in accounts payable from various sources. The invoices are matched with purchase orders. When the invoice and the purchase order are together, the invoice is keyed into a computer system called AOD. The accounts payable module in AOD prints the paper voucher that will be submitted to the Office of the Comptroller General. The Comptroller General authorizes the Office of the State Treasurer to issue a check for the voucher. The check is returned to accounts payable and placed in the outgoing mail. The accounts payable procedure is complete. However, is the procedure that simple?

## **Data Collection and Analysis**

Let's follow the procedure using a fictitious hotel invoice through the accounts payable process. The flowchart in appendix A is a visual representation of this process. The invoice from the Chester Hotel arrives at the Housing Authority along with, on

average, 478 other pieces of mail. The mail is sorted and delivered to the appropriate SHA department. Upon receipt of the mail, the accounts payable technician opens the mail and date stamps each piece. Not all invoices are received in this manner. Some invoices are generated by the Agency and are hand-delivered to accounts payable. These invoices are date stamped also.

Chester Hotel must now be matched with a purchase order. The accounts payable technician looks for but does not have a purchase order for this vendor. She makes a copy of the invoice for purchasing and retains the original in a suspense file. Purchasing receives the copy of the invoice and hand writes a purchase order. The purchase order is a three-part form. One copy is forwarded to accounts payable, one copy is placed in the vendor file and one copy can be sent to the vendor if required. Forty-five new purchase orders are written each month on average. This number is significantly lower than the number of invoices processed each month. This is because we have 'open p.o.'s' with repeat vendors. The purchase order number is assigned to a vendor and is used multiple times. Housing Authority employees, rent and utilities for the building and most of the payments involving funds from HUD are examples of vendors that have an 'open' purchase order number. Chester Hotel now has a purchase order and is ready to be entered into AOD.

Chester Hotel is keyed into the AOD accounts payable module. Other invoices that have been received and matched with purchase orders will also be entered. When the keying is complete, the accounts payable technician prints a test run of the batch. The printout and all supporting documentation are given to the accountant for verification. This step corrects keypunch and account coding errors. It is also an auditing process.

Are the required paperwork and signatures present? Errors detected in this step are corrected in AOD when the test run is returned to the accounts payable technician. The vouchers are printed. An electronic copy of the batch is produced on a disk for the Comptroller General's office. The vouchers and supporting documents are submitted to the Finance Director for signatures. Vouchers and supporting documentation are copied for State Housing Authority files. Originals are submitted to the Comptroller General's office. Accounts payable processes 197 vouchers in an average month.

The completed batch is delivered to the Comptroller's office by the Finance courier. The computer at the Comptroller General's office runs several edits on the batch. The most critical one is for the tax identification number submitted for a vendor must agree to the listing from the Internal Revenue Service. If the numbers do not agree, the vendor must contact both the Internal Revenue Service and the Comptroller General's office to correct the difference. This process can significantly delay payment to a vendor. When the Comptroller General's office has completed their procedure, they authorize the State Treasurer's office to issue the checks.

The courier picks up reports from the Comptroller General and checks from the State Treasurer to be delivered to accounts payable. The accounts payable technician sorts the checks for hand-delivery and mailing. Internally generated invoices produce checks that are hand-delivered. Some checks require special handling. For example, a check for a seminar may require a copy of the registration. Special checks and the supporting documents are placed in envelopes for mailing. All other checks are mailed as they are received. The process of paying the Chester Hotel invoice is complete.

The Agency has reduced the number of purchase orders written by using the State credit card. The cost of processing purchase orders could be lowered by reducing the time required to produce them. Comparing the accounts payable process to the purchase order process has revealed that automation results in cost savings. The accounts payable process is bulky but it is efficient. Automating the process and a good workflow facilitates the movement of invoices, vouchers and checks. During the six months from July 2004 to December 2004, the Agency processed 1,182 vouchers. For the same time period, the Agency processed 260 purchase orders.

### **Implementation Plan**

Researching the cost for each step in this process has shown that accounts payable is cost efficient. (See Appendix B) The costs are much lower than anticipated. The process is highly automated. Vouchers print on the laser jet printer. The paper for that printer is less than one cent per sheet. Mailing checks requires envelopes on occasion. The next step for accounts payable is to go 'paperless'; change our process to submit everything to the Comptroller General in electronic form. This would require major changes at both Agencies.

The cost of the purchase order part of the process is high because so many of the purchase orders are 'open.' Most of these open purchase orders cross fiscal years. Using open purchase orders and the State credit card have resulted in very few purchase orders being written per month. Handwriting the three part forms is time consuming. Time is the most expensive commodity we manage. The forms cost twenty cents each. We can

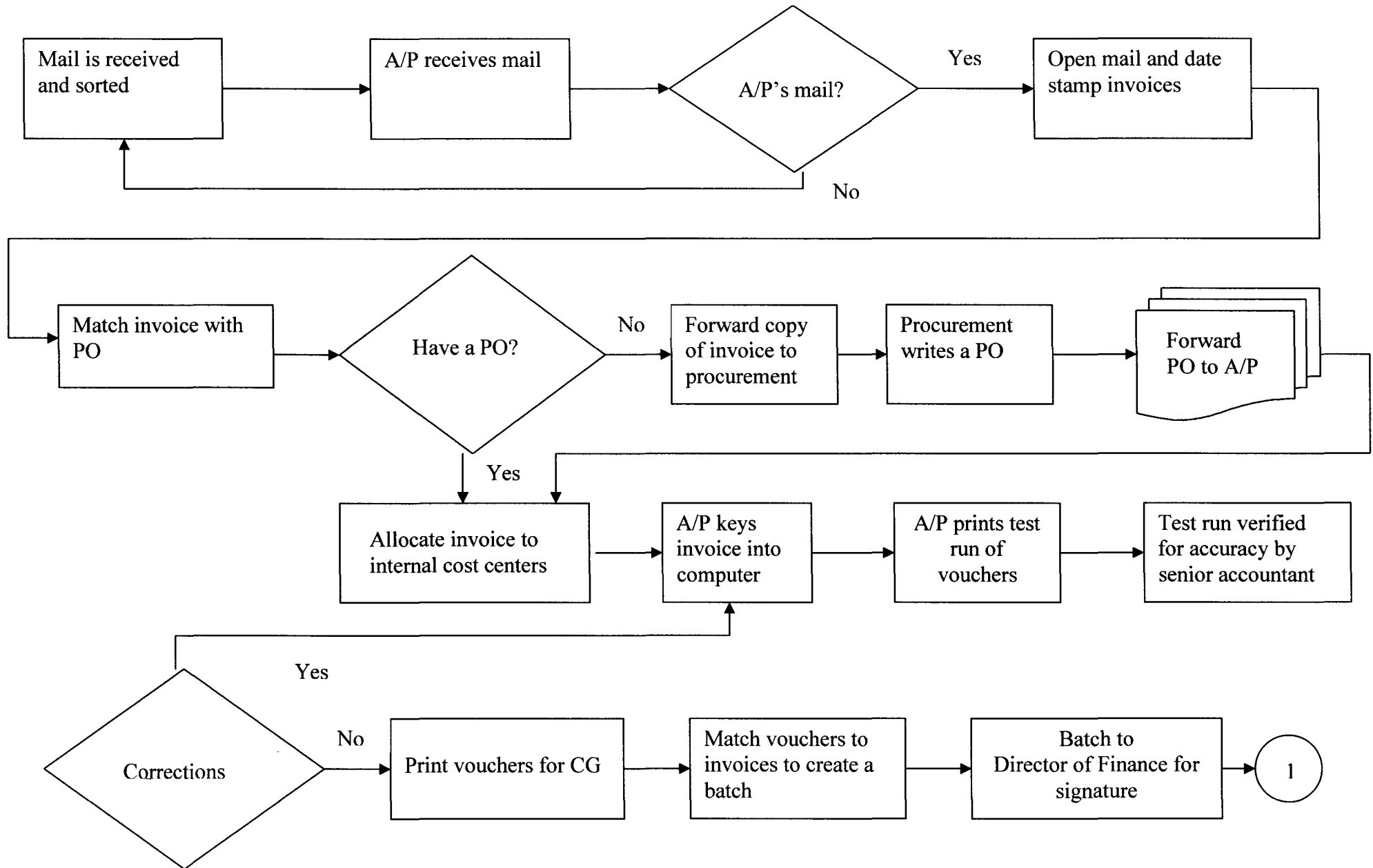
examine automating this process. Our AOD vendor can write a program that will print purchase orders on the laser jet printer.

We can have 'paperless' purchase orders. The purchase orders would be keyed in AOD by purchasing. An e-mail would be sent to accounts payable for notification of the purchase order number. Accounts payable would use the purchase order number to process the invoice. There would be no signature on the purchase order. The e-mail would act as authorization. For testing purposes, we could set a \$250 limit on this type of purchase order. We already use electronic purchase orders for employees and some HUD payments. We average 18 purchase orders per month less than \$250 at a cost of \$13 per purchase order. That results in a savings of \$234 per month.

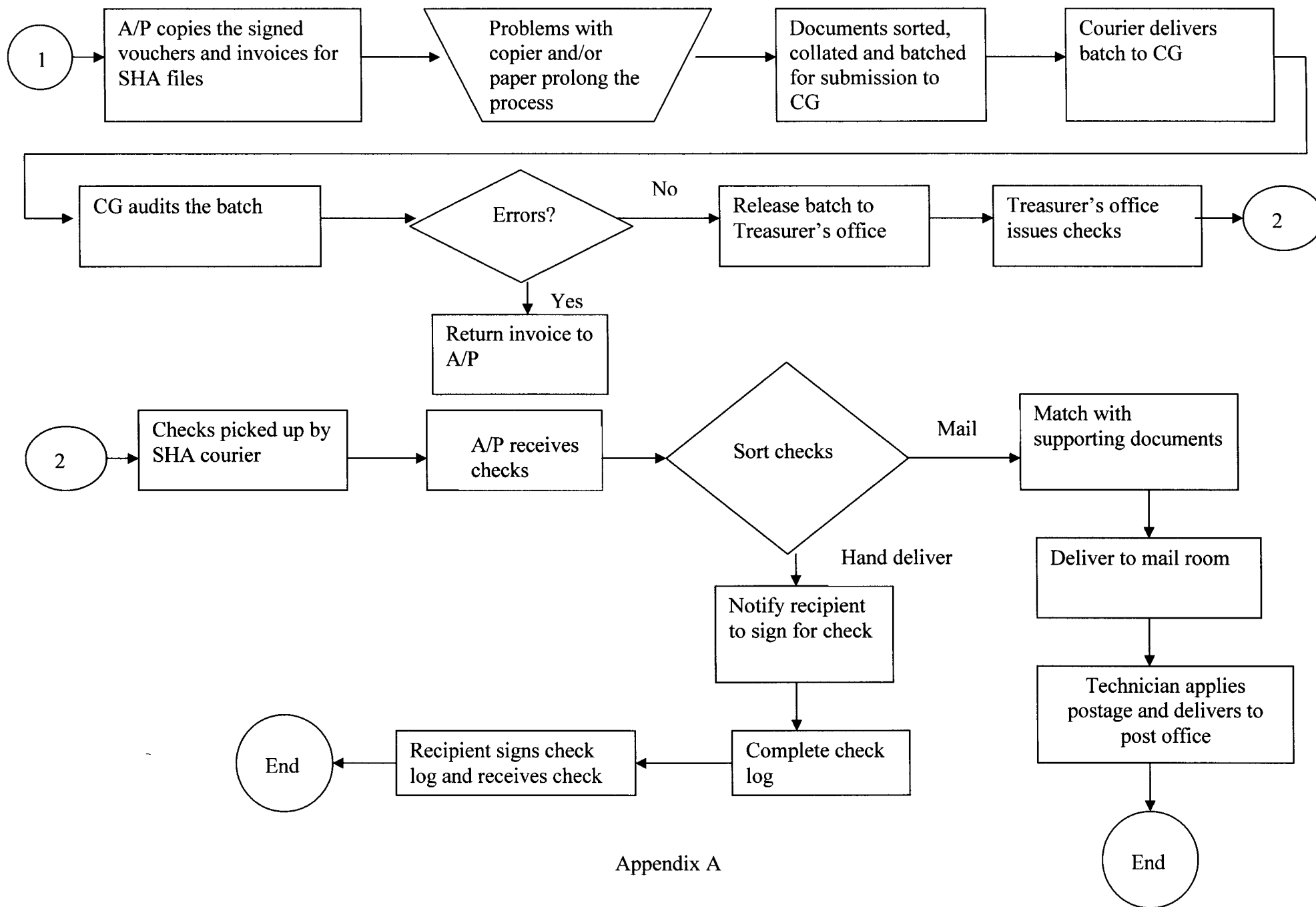
### **Evaluation Method**

Take steps to stop using the three-part purchase order form. Verify the average number of purchase orders produced has decreased. The Agency should expect to see the cycle time of the purchase order process reduced as a result of increased automation. After an initial training period, the process should be reviewed two consecutive quarters for signs of improved efficiency. Then a yearly review of the process should be performed. The review will be best accomplished by someone familiar with the system and should be performed by the Director of Procurement.

## The Accounts Payable Process



Appendix A



Appendix A



Cost of a Voucher

	expense	x	% time from PD	equals	/	by # of items	= cost per item
Sort mail	97.86		15%	14.68		478	0.03
Write PO's	2,945.50		20%	589.10		43	13.70
Process voucher	2,725.74		40%	1,090.30		197	5.53
Test run verification	4,501.58		20%	900.32		197	4.57
Submit for signature	6,000.00		20%	1,200.00		197	6.09
Courier	2,900.40		20%	580.08		197	2.94
Postage				41.81		113	0.37

Note: Each individual PO is 20 cents.  
The courier handles each item twice.